

Message Text

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64

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20

DRC-01 /200 W

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R 181616Z DEC 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 2394

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: NEW CREDIT MEASURE

(A) ROME A-414, JULY 12, 1973

(B) ROME 5593, JUNE 19, 1973

1. /SUMMARY/. IN CONTINUATION OF MEASURE INTRODUCED IN JUNE
1973, ITALIAN COMMERCIAL BANKS WILL BE REQUIRED DURING FIRST

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SIX MONTHS OF 1974 TO PURCHASE BONDS ISSUED BY CERTAIN STATE
AND PRIVATE ENTITIES SO THAT THEIR TOTAL HOLDINGS ON JUNE

30, 1974 WILL EXCEED END-1972 HOLDINGS BY AT LEAST 9 0/0
OF THEIR DEMAND AND SAVINGS DEPOSITS AS OF DECEMBER 31, 1972,
NET OF CERTAIN RESERVE AND GUARANTEE DEPOSITS. MEASURE IS
MEANT TO CONTINUE POLICY OF SELECTIVE CREDIT CONTROL AIMED
AT DIVERTING COMMERCIAL BANK FUNDS AWAY FROM SPECULATIVE PURPOSES
AND TOWARD MEDIUM - AND LONG- TERM PRODUCTIVE INVESTMENT.
/END SUMMARY/.

2. OFFICIAL GAZZETTE NO. 322 OF DECEMBER 15, 1973 PUBLISHES
TEXT OF DECREE WHICH REQUIRES COMMERCIAL BANKS (EXCEPT FOR
RURAL AND ARTISAN BANKS) BY JUNE 30, 1974 TO INCREASE THEIR
INVESTMENTS IN FIXED-INTEREST SECURITIES ABOVE AMOUNT HELD
ON DECEMBER 31, 1972 BY AMOUNT AT LEAST EQUAL TO 9 0/0
OF BANKS' DEMAND AND SAVINGS DEPOSITS ON THAT DATE, NET
OF REQUIRED AND LIQUIDITY RESERVES, COLLATERAL DEPOSITS
AGAINST CIRCULATING BANK DRAFTS AND GUARANTEE DEPOSITS.
MEASURE, IN EFFECT, RAISES EXISTING 6 0/0 REQUIRED INCREASE
IN HOLDINGS FROM END-1972 LEVEL BY FURTHER 3 0/0.

3. FIXED-INTEREST SECURITIES ELIGIBLE FOR PURCHASE BY COMMERCIAL
BANKS INCLUDE AGRICULTURAL IMPROVEMENT BONDS, BONDS ISSUED
BY NON-REAL ESTATE SPECIAL CREDIT INSTITUTES, BONDS OF
ENEL, IRI AND ENI AND PRIVATE COMPANY BONDS, AS WELL AS BONDS
ISSUED BY THE STATE AND BY AUTONOMOUS STATE ENTITIES. ORDINARY
TREASURY BILLS AND SECURITIES ISSUED BY DEPOSIT AND LOAN FUND
(CASSA DEPOSITI E PRESTITI) FOR COMMUNAL AND PROVINCIAL CREDIT
ARE NOT ELIGIBLE. CHANGES FROM JUNE MEASURE ARE: (1) THERE IS
NO SEPARATE ALLOCATION OF QUOTA BETWEEN GOVERNMENT SECURITIES
AND NON-GOVERNMENT SECURITIES, (2) AGRICULTURAL IMPROVEMENT
BONDS ARE NOW ELIGIBLE, AND (3) ALTHOUGH SAME ANNUAL RATE OF
INCREASE HAS BEEN RETAINED (6 0/0), MEASURE WOULD APPLY
ONLY DURING FIRST SEMESTER OF 1974.

4. AMOUNT OF ADDITIONAL BONDS TO BE PURCHASED UNDER NEW
MEASURE WOULD BE IN RANGE 1,700 TO 1,800 BILLION LIRE OVER
NEXT SIX MONTHS. THIS COULD, IN PRACTICE, AMOUNT TO LOWER RATE
OF NEW BOND PURCHASES THAN UNDER CURRENT MEASURE SINCE REQUI-
REMENT FOR 6 0/0 INCREASE DURING CY 1973 DID NOT COME INTO
EFFECT UNTIL JUNE 1973, LEAVING BANKS ONLY SIX MONTHS FOR
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INCREASING THEIR PORTFOLIO ABOVE END-1972 LEVEL. (HIS ASSUMES
THAT THE BANKS HAD NOT ALREADY VOLUNTARILY INCREASED THEIR
HOLDINGS IN FIRST HALF OF 1973.)

5. PURPOSE OF MEASURE IS UNCHANGED, I.E., TO INVEST COMMERCIAL
BANKS' SHORT-TERM RESOURCES IN MEDIUM-AND LONG-TERM SECURITIES
ISSUED TO FINANCE PRODUCTIVE INVESTMENT. MEASURE WOULD ALSO
SUPPORT MONETARY AUTHORITIES' "OPERATION TWIST" AIMED AT
AVOIDING EXCESSIVE RISE IN LONG-TERM INTEREST RATES BY
SUPPORTING BOND MARKET, WHILE ALLOWING SHORT-TERM RATES

GREATER FLEXIBILITY.VOLPE

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